#5839

REVITALIZING THE U.S. TEXTILE INDUSTRY & PHILIPPINE APPAREL INDUSTRY

Proposed 809/Apparel Pilot Program

March 11, 2009 Working Text

Not only do the United States and the Philippines share deep historical and cultural connections, their textile and apparel industries share the same challenges and risks stemming from the end of the U.S. quota system that controlled apparel imports from China until January 1, 2009. Indeed, the Philippine textile industry already has been decimated by international competition. However, the Philippine apparel industry will continue to fight for its survival, and believes that an enhanced relationship with the U.S. textile industry can be an important factor in its future.

Today, U.S. textile exports to the Philippine market are small. U.S. textile exports to the Philippines were approximately $20 million in 2008, mostly broadwoven, including denim, industrial/specialty and non-woven fabrics. The proposed pilot program would provide strong incentives for Philippine garment manufacturers to use U.S. fabrics, which likely would substantially increase opportunities for U.S. yarn and fabric manufactures. (If deemed beneficial to the U.S. textile industry the pilot program can be extended beyond apparel.) For the first time U.S. textile manufacturers would have a program that utilizes Asian sewing, which will in and of itself open important new opportunities for the U.S. industry.

The U.S. apparel fabrics industry is heavily dependent on sewing outside the United States, and mostly in the Western Hemisphere. About seventy-five percent of U.S. fabric exports presently go to CAFTA/NAFTA countries. Apparel producers in the Western Hemisphere are excellent and making basic garments such as t-shirts and standard 5-pocket jeans. However, the needle capability does not exist to make high fashion, more sophisticated garments such as embroidered t-shirts and fashion jeans with embellishments. Such apparel manufacturing is done almost exclusively in Asia.

Unless the U.S. textile industry can cultivate new customers in Asia, they will not be able to supply the more fashion-forward segment of the U.S. apparel market. The proposed 809 pilot program, which is outlined below, will open new opportunities for the U.S. textile industry. The rules should be simple, straightforward and enforceable to maximize the prospects of the proposed program's success.

Duration

- The initial time frame for the pilot program should be of sufficient duration to give certainty to the trade and incentive for investment in both the United States and the Philippines.

- A thorough review of the pilot program would begin after the first year of the program to determine if any modifications are necessary. The review would be conducted by a joint

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U.S.-Philippine government and private sector commission that would report its findings to Congress no later than 3 years after the implementation of the pilot program.

Scope for "809" Portion

- The Philippine preference is that the program cover all apparel (and made-up goods if of interest to the U.S. industry), but at least should cover categories **338/339, 347/348, 352/652, 638/639, 640, and 647/648.**

General Rules for "809" Portion

- Garments eligible for this program that are cut and wholly assembled in the Philippines for which the fabrics comprising the essential character of the garment are knit or woven in United States (from U.S. formed yarns) would enter the U.S. free of duty.

- Garments eligible for this program that are cut and wholly assembled in the Philippines for which the yarns in the fabrics, which must be wholly formed in the Philippines that comprise the essential character of the garment are spun or extruded in United States would enter the U.S. at a reduced duty rate (either 50% of the MFN rate, or the value of U.S. yarns subtracted from the dutiable value).

- In all the above, if desired by U.S. industry, elastomeric yarn must originate in either the United States or the Philippines.

- U.S. formed fabrics must be dyed and finished in the United States. Nonetheless, apparel articles may be embroidered or undergo stone-washing, enzyme-washing, acid washing, permapressing, oven-baking, bleaching, garment-dyeing, screen printing or other similar processes in the Philippines.

- U.S. fabric (or yarns) must be shipped directly to the Philippines. Apparel eligible for the pilot program must be shipped directly to the United States (cannot enter the customs territory of another party).

- The U.S. and Philippines Governments, with their respective private sectors, will work with shipping lines to negotiate reduced fees on U.S. outbound cargo (which often go to Asia empty) to make the use of U.S. textile products even more attractive to Philippine producers.

- The Government of the Philippines will provide enhanced market access to their country, and work with the U.S. industry to provide markets to other ASEAN countries.

Enforcement

- The program shall include provisions to ensure strict enforcement of all aspects of the pilot program, and shall include customs-to-customs dialogue and cooperation.

- After quotas expired in 2005, the Philippines was one of the few countries to sign a customs cooperation agreement that allows U.S. CBP to conduct "jump team" visits to verify production. That agreement will be maintained.

- The Philippines is willing to establish an Electronic Visa Verification and Information System (ELVIS) to further assist with enforcement.

- The Philippines is willing to establish procedures that allow the Office of Textiles and Apparel (OTEXA) to obtain information when U.S. fabrics are exported to allow for monitoring and verification before the apparel shipments reach the United States. The information provided upon export of the fabrics would include, among other things, the name of the apparel importer, HTS number of the apparel to be made from the fabric, and the quantity of the apparel to be made (imported into the U.S.) from the fabric.

Cut/Sew Rules for Selected Products

- Recognizing that the success of the 809 pilot program requires a competitive sewing industry in the Philippines that can provide U.S. retailers with the broadest range of products possible, the program also would provide duty-free benefits for certain non-import sensitive products such as women's cotton coats (category 335). Other categories to be considered are: **237, 239, 335, 336/636, 340, 351/651, 435, 436, 442, 444, 448, 341/641, 644, 649, 350/650, 635, 342/642, 634, 652-women's only, 835,and 842.**

- The duration of this aspect of the pilot program would be subject to the same duration and review as outlined on the 809 portion.

The ever growing challenges of international competition require new thinking, bold action and equal determination by the U.S. textile industry and the Philippine garment industry. Working together in developing a pilot program provides the best hope that our respective industries will succeed in the coming years.
